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Stewart, Howard R.

Showing how Germany
can pay

London

1918

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Box
SHOWING

HOW GERMANY CAN PAY

308

Z

Box 280

By
HOWARD R. STEWART, E.M.

December, 1918.

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PHONE
WHITE PLAINS 3471

Stewart

49 GREENRIDGE AVENUE
WHITE PLAINS, N.Y.

June 6 - 1930

Mr. Lihavian

Columbia University
New York City

Dear Sir,

I enclose a copy of
a pamphlet which I prepared
in 1919, on the subject of
the War Debt.

This attracted some
attention at the time and
carries an added interest
in view of subsequent events.
I have thought that the

University Library, might
like to have one of the
very few remaining copies,
for its reference shelves.

Very truly Yours
Howard R Stewart

P.S. I myself am a
graduate of the Columbia
School of Mines - Class 1902

June 16, 1930 DA/EE

SHOWING HOW GERMANY CAN PAY.

If the attitude of electors in the recent parliamentary campaign may be taken as a guide, the topic of most general interest at the present time is "Will Germany be made to pay the entire cost of the War?"

This question was levelled at candidates with the greatest consistency, by electors of all classes, ages, and sexes; and the nature of the reply forthcoming constituted, for many, the principal factor in determining the suitability or otherwise of those seeking seats in the House of Commons.

Great Britain's share in the expenditure on the war may be roughly placed at six billions of pounds sterling (£6,000,000,000), and to redeem this, over a period of 50 years, and to pay interest at four per cent. in the meanwhile, will call for an annual appropriation of nearly £280,000,000.

The Budget of Great Britain for 1913 amounted to the huge total of £191,000,000, and in order to meet it the heaviest taxes ever imposed on this nation were levied. How will it be, then, if, superimposed on this vast sum, we are to have an added amount of £280,000,000 per annum.

Nor has all yet been said, for it is an admitted fact that if this country is to remain a desirable place for the great majority of our people to live in, immense capital expenditure must immediately be faced in connection with schemes of reconstruction which have been outlined by the Premier.

In short, it has been computed that if Germany be not called upon to make good the losses to which she has condemned us by her acts, we shall be compelled to meet a Budget of £750,000,000 per annum for many years to come.

There is no question but that the great majority of the inhabitants of these islands are convinced that Germany should and must pay. Nevertheless, the topic is being made the subject of much uninformed discussion, and wide differences of opinion are disclosed, ranging from the "be kind to Germany" of the Pacifists, to the "leave them only their eyes to weep with" of the most belligerently inclined.

Even among those who believe that our enemies should be fully punished for their crimes, much divergence of opinion exists. On the one hand, we have those who would ruthlessly destroy or

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Even among those who believe that our enemies should be fully punished for their crimes, much divergence of opinion exists. On the one hand, we have those who would ruthlessly destroy or

confiscate every German enterprise and interest, wherever it may be found; and, on the other hand, are those who see danger (in the face of such huge amounts as have to be settled) of so disrupting the commercial balance of the world as to produce chaos and disaster to friend and foe alike.

Evidently a fruitful field for enquiry exists, having for its aim a determination of:

(1) *Whether Germany can be made to pay without ruining the world at large.*

(2) *If Germany can pay, how can she best be levied upon?*

The present writer proposes to outline a method of procedure which he believes would enable Germany and her allies to meet their obligations, and which could, with comparative ease and simplicity, be carried into effect with no irreparable hardship to anyone, not even to our enemies themselves.

So far as may be judged, from the comments which are heard, and from articles which have appeared in the Press, no very considered study of this problem has yet been made, and we have it on the authority of an editorial in *The Times*, of December 9th, 1918, that:—

"There is frankly no basis at present for computing Germany's capacity to pay."

From the same authority, too, we learn that:—

"A committee was appointed for the purpose (of studying Germany's ability to pay), under the chairmanship of the Australian Prime Minister, but a very short experience was sufficient to show that the terms of reference were impracticable."

Obviously, no apology is needed for an attempt to investigate this important problem, even though entirely adequate data be not available.

* * * * *

It is necessary, as a prelude, to arrive at a figure representing *how much* Germany is to pay.

This figure has not as yet been named, but it can be determined by those who have access to the necessary data.

Great Britain and her colonies will, it is claimed, present a bill for £8,000,000,000, and France is believed to contemplate an even larger amount. The United States has already expended an immense sum on the war, and large claims will doubtless be lodged by Belgium, Italy, Serbia, Montenegro, and Russia.

Much of the expenditure has, without doubt, been involved in constructions of permanent value; and much of the material produced for purely war purposes will have an appreciable "scrap" value.

Then again, assets of considerable value have already been taken from the enemy, and are being held in trust on behalf of the victors.

Thus, about 2,000,000 tons of mercantile shipping have been seized, not to mention the whole of the German, Austrian, and Turkish fleets. And then there are the German Docks in New York Harbour, and some hundreds of millions of pounds worth of enemy-owned securities. Furthermore, we have the German Colonies, Alsace-Lorraine, and Kiau-Chau. Moreover, it has been stated in some quarters that the United States Government does not intend to present its bill of costs, but it will be satisfied with having assisted in "making the world safe for democracy."

Evidently, there is going to be considerable "giving and taking" before the final figure representing a war indemnity is arrived at.

Let us assume, then, that after having taken possession of the remainder of the enemy mercantile fleets; after giving adequate credit in all directions; and after having secured the position of all Entente Investors in Enemy Government External and Internal Loans, a figure of £20,000,000,000 has been arrived at as the sum calculated to pay for the war and accomplish restoration.

For the purpose of this article the precisely accurate figure is not requisite, for, in any case, the principles about to be outlined will remain unaltered.

Now, as a further prelude, let us come to a distinct understanding in regard to what is meant by paying for the war.

The fact needs no demonstration that the enemy cannot raise, in one lump sum any such stupendous amount as £20,000,000,000, for the reason that no such amount of money exists. The best then, that can be expected, is that he will pay interest, annually, on the capital sum, and redeem the latter over a long period of years.

As a matter of fact, such an arrangement would be quite satisfactory to us, provided the interest payments were regularly met.

All we wish to do is to remove the burden of the interest and redemption charges from our own shoulders to those of our enemies, where they rightfully belong. The reconstructions on the Continent cannot be fully carried out in a single year, nor in many years, for the reason that sufficient work-people are not available; and because materials of construction cannot be so rapidly manufactured and collected. In short, we would not care to have £20,000,000,000 all at once, even if we could get it, because we would not know what to do with more than a comparatively small portion of it, in any one year.

Thus we have reached the conclusion that the enemy may be considered as having paid for the war if he continually hands us £800,000,000 per annum, until such time as he may have gradually redeemed the capital sum of £20,000,000,000.

The moment now seems appropriate to pause, and consider what general principles should guide us in elaborating a plan for

compelling the payment of the £800,000,000 per year. Briefly, we may say that the following requirements should be fulfilled:—

- (1) *No individual enemy should be able to avoid paying his share of the indemnity.*
- (2) *Not only Germany, but also Austria, Hungary, Bulgaria, and Turkey should pay.*
- (3) *Another attack should be rendered impossible, at least for several generations to come.*
- (4) *The plan should be efficacious and should provide that the Commercial prosperity of the Entente Allies be not endangered by the operation of any of the terms imposed.*
- (5) *The plan adopted should be simple of application, and should call for a minimum of interference in the internal affairs of the enemy.*

* * * * *

A review of the above requirements suggests the desirability of amplifying them, of explaining their significance, and of commenting on several pre-war practices of the enemy which must not be allowed to recur.

(1)

On the question of individual liability for each enemy subject, the suggestion at once arises that, if proper steps be not taken, evasion of responsibility will be easily accomplished, by the simple device of emigrating. At the end of a few years, then, it will be found that the territories of the Central Allies have been denuded of the able-bodied population, who will have moved to America or elsewhere, where they will no doubt be enjoying great prosperity. *This should be guarded against by prohibiting emigration from enemy countries, until the bill for the war has been liquidated in full.*

As a corollary to the above, we should deal with the "*enemy alien in our midst.*" For very many years prior to the war it was the custom of Germany, in particular, to commission certain of her subjects to foreign countries, for the purpose of secretly working in the interests of the Fatherland.

These people were of all classes and of both sexes, and it was their duty to penetrate into activities of all kinds, with a view to securing trade secrets, creating internal dissension, procuring legislation likely to be of advantage to their home countries, building up an organisation of spies for use in case of war, and so on.

Very many others of the enemy aliens came to our shores for more or less legitimate reasons, but were found, when war broke out, to be of such potential danger that they had to be interned.

All of these people should be taken from the internment camps where they now are, and deported to their own countries and kept there, so that we may be rid of them, and in order that they may be forced to pay their share of the indemnity.

(2)

All of the Central Allies should be made to pay, for the reason that all are guilty. It is true that Germany was the ringleader in the conspiracy against us, but it is nevertheless a fact, that Austria, Hungary, Bulgaria, and Turkey also plotted, and were gleefully expectant of huge profit to themselves had not their great gamble failed.

(3)

Another attack is to be guarded against, not as a remote possibility, but as a very potent danger.

It is a matter of accepted fact that, at the outbreak of the war, a complete domination of the industrial world was rapidly being acquired by Germany, and she was gaining this position despite the fact that she was opposed by powerful and rich competitors.

Now the point is that, relatively speaking, Germany will be more powerful than ever in industrial matters, if she be not made to pay for the war. She has fought the war with this idea fully in view, and her devastations have been executed with the double purpose of ruining the productive capacity of her rivals for a long term of years, and of artificially generating an immense near-to-home market for such of her products as are calculated to be of use in the process of rehabilitation. In this connection of the potential strength of Germany, we have to view with alarm the undermentioned facts, viz:—

- (1) The amount of gold in Germany to-day is substantially the same as before the war, due to the fact that force of circumstances has prevented her from exporting much of it in payment for munitions purchased abroad.
- (2) Unlike those of at least five of our Allies her lands and factories are intact. In fact, her manufacturing capacity is immeasurably greater than ever, due to the abundance of machinery which she has stolen [particularly from Poland, Belgium, and France], and which she has incorporated in her own manufacturing plants situated on German soil.
- (3) Although it is true that Germany is, like ourselves, faced with an immense war debt, the interest thereon is payable, almost exclusively, to her own people; and her rulers will undoubtedly not hesitate to defer payment for a number of years if ultimate supremacy can be attained by so doing.

We and our Allies, on the other hand, being more scrupulous in meeting our obligations (particularly as regards foreigners, to whom we are largely indebted), must carry the incubus of a taxation so immense as to stifle all our activities, if Germany be not made to pay.

- (4) If Germany can but secure the sinews of war she will again attack us, beyond any shadow of doubt. She hates us inordinately, and will destroy us if possible. It was not for nothing that the Hymn of Hate was written.

The requirement that the terms imposed on Germany must be efficacious, and that they must be of such a nature as not to react unduly on ourselves, is suggested by the nature of many of the proposals that have been advanced. In some cases there is a lack of appreciation concerning the magnitude of the indemnity which will be required. Other proposals indicate an insufficient knowledge of commercial affairs.

The acknowledged great value of the State property in Germany, consisting as it does of railroads, forests, mines, etc., has led many to the belief that the collection of an indemnity could be effected at once by the seizure of these assets. It is true that immense quantities of certain raw materials are extant, but it has to be remembered that *values* are based on the annual net revenues derivable, not upon immensity.

If a quotation mentioned in a recent issue of the *Economist* is to be accepted, only about £2,200,000,000 worth of State property is available in Germany, that is to say, about 11 per cent. of the amount required.

Another much advocated method proposes that payment be accepted in the form of manufactured goods. As a matter of fact, however, the entire exports of the Central Allies, before the war, only amounted to a value of about £650,000,000 per annum, of which at least 60 per cent. must represent such absolutely irreducible costs of production as expenditure for raw materials, and for food, clothing, heating, lighting, etc., for the manufacturing people. On this basis, then, only £260,000,000 per annum could be collected in this way.

Moreover, we should be highly embarrassed by having such huge quantities of material suddenly thrust upon us. We could neither use them ourselves, nor throw them indiscriminately on the markets of the world, without so lowering prices as to destroy our own industries, thus robbing our own manufacturing population of a livelihood.

Still another proposal has been that we should accept payment in the form of coal, of which Germany is known to have the largest deposits in Europe.

Here again, cognizance is not taken of the economic conditions which have resulted in Germany's being a coal customer of our own, to the extent of about 9,000,000 tons per year.

Pursuing this same topic of the necessity for protecting Entente Industries, it is necessary to deal with the question of "dumping."

The term "dumping," refers to a form of conspiracy, common in the past, between the State officials of Germany, and the manufacturers of that country, looking to the destruction of Entente Industries, notably those engaged in manufacturing articles requisite in time of war.

The method employed was simple, and consisted of so combining Government subsidies with low freight rates on the German Railways (which are owned by the State), as to enable goods of certain types to be placed in foreign countries at prices so cheap as to be beyond competition. This policy, when exercised in any given direction for a sufficient length of time, had the effect of demolishing the local industries affected, after which, with competition thus removed, prices were raised and the outlay quickly recouped.

The effect of these practices was imperfectly realised in Great Britain until the outbreak of war, when it was found that, overnight, the source of supplies for many absolute essentials of war had been cut off. Thus, we found ourselves lacking in certain chemicals (for explosives), dyes (for khaki cloth), optical glass (for officers' field-glasses), tungsten (for tool steel), etc., etc.

Great Britain has been peculiarly susceptible to the device of dumping, owing to its long-established policy of Free Trade, which enables goods of foreign manufacture to enter the country without duties, and, therefore, in free competition with the products of our own people.

Free Trade seems to be very firmly established here, so that, if no curative measures are adopted, dumping will undoubtedly be again resorted to as soon as Peace is declared. The desire to eliminate this unfair method of competition is now very general, but, up to date, the writer has not noted the proposal of any method which seems likely to accomplish the desired result. Protection for certain key industries is talked of, but this can only serve to secure a certain limited field.

The writer's proposal for meeting this menace of dumping is to require that a portion of the War Indemnity be collected in the form of an export duty on all goods despatched from enemy countries.

This tax could be made an important source of revenue, and could be so manipulated as to ensure of no goods being thrown on the world's markets at prices defying legitimate competition. The device, too, would meet Mr. Hughes' objection to the idea that Germany is henceforth to have access, without penalty, to the same markets as ourselves and our allies.

An Export tax would be something new to the enemy countries, but it would present no features difficult of application. *Import* taxes (averaging about 20 per cent.) are already levied by Germany, and the same machinery could easily be availed of in collecting levies on exports.

The only effects of the tax would be to reduce, somewhat, the great profits to the German manufacturers; and to raise the cost of enemy goods to a level with those coming from the Entente Allies. Since, in any case we do not intend, henceforth, to purchase enemy goods to any appreciable degree, except possibly certain raw materials (we and our allies having collectively everything that we need), the only people affected would be the enemy, and

the neutrals. For these latter we may have sympathy but no grief. Many of them were deliberately obstructive to our interests during hostilities, and none of them aided us in securing the safety of the world.

(5)

It is obvious that the more simple the plan for collecting an indemnity, the better for all concerned. There are those who would see us seize and operate the various enemy industries. This would be inadvisable for a variety of reasons. In the first place, no considerable number of us wish to live in the enemy countries, because we do not like the people, and moreover, we are busy with our own affairs.

Furthermore, the results of operation would be much less remunerative in our hands because, naturally, we do not understand the enemy businesses as well as their owners do. Also, with our less drastic methods, we could not get as much work out of the Huns as masters of their own blood would do.

From every point of view it would be better to merely *seize the executive portion of the machinery whereby the enemy revenues are collected and the disbursements controlled*. This would enable us to effect important economies in their expenditures, and to prescribe methods for increasing their revenues. For the remainder, the peoples affected could be left to solve their own industrial and financial problems unhampered in any way.

If this plan were adopted, it would be to our advantage to aid in rehabilitation, by supplying the raw materials without which the wherewithal for the indemnity cannot be accumulated. Also, it would be necessary for us to assist in marketing the manufactured goods, by supplying shipping facilities, at reasonable rates, so far as our own interests would allow. In this matter of shipping, however, it would be necessary to require of the German Powers, that all new ships built by them be sold to the Entente Allies, at fair prices, until such time as the requirements of the "ton for ton" principle have been completely filled.

* * * * *

Let us see now where such a programme as has been outlined would lead us to, and in how far it would be clearly effective in accomplishing the desired result of producing the £800,000,000 per annum required for interest on the debt; plus instalments calculated to eventually redeem the latter.

DEFENCE.

The most obvious economy that we could insist upon, in distributing the enemy revenues, would be in connection with the enormous sums which have been devoted in the past to the so-called "defence."

The ordinary expenditure involved in this connection before the war, by all the Central Allies, amounted to about £137,000,000 per year. There were also immense *extraordinary expenditures* for the same purpose, but consideration of these will, for the moment, be omitted.

This £137,000,000 should be appropriated by the Entente as a useful contribution towards the service of the indemnity. The enemy would, of course, become defenceless against aggression from without, but the League of Nations could bind themselves to secure integrity for all territories. *In this way the world would be secured against the menace of another attack, at all events until long after the indemnity is paid in full.*

THE EXISTING NATIONAL AND STATE DEBTS.

It will be remembered that one of the specifications upon which this paper is predicated, required that the position of all Entente investors in Enemy Imperial and State Loans be secured, before arriving at the figure of £20,000,000,000, which represents the amount of the indemnity.

It would, therefore, be working no hardship on the Entente Peoples if we were to appropriate the sums which ordinarily would be utilised in meeting this service.

On the basis of the pre-war conditions, it appears that the annual sum of about £81,000,000 will be available under this heading.

GOVERNMENTAL ECONOMY.

With the State, more even than with the individual, it is a demonstrable fact that, when hard times come, great economies in living expenses are possible, and the more prosperous the State or the individual ordinarily is, the greater are the results which can be accomplished. Sinecures can be abolished, unremunerative expenditures can be dispensed with, and so on. A saving of 25 per cent. on outgoings would not seem to be a figure impossible of accomplishment, when we consider the hordes of ornamental but well-paid offices which have, in the past, had to be provided for by the inhabitants of the enemy countries. In this connection it is only necessary to point to the 23 reigning families, and their satellites, in the various German States alone, not to mention the Kaiser and his entourage.

It appears that, before the war, the total *ordinary* expenditures of the enemy countries (excluding contributions to Imperial Exchequers) amounted to £736,000,000, per year, of which £218,000,000 have already been dealt with under the headings of Defence and Debt. There remains £518,000,000 to which to apply the 25 per cent. economy, thus obtaining a further contribution towards the indemnity, of £130,000,000 per annum.

THE EXPORT TAX.

The question of the proper average percentage on values which the Export Tax should assume, is one which requires more fundamental data at hand than the writer has; but to those who are properly equipped in this respect the problem is readily soluble.

The tax would be heavier on some articles than on others, and it would be at all times adjustable to meet varying conditions, being insufficiently heavy to crush the enemy industries, but sufficiently drastic to absorb a fair proportion of the immense profits which the Central manufacturers were garnering before the war; and, above all, it would be calculated to prohibit *dumping*. Let us say, for the purposes of this article, that the Export Tax would average 20 per cent. on the value of the commodities concerned. At the time of the outbreak of war, the combined exports of our enemies were valued at £650,000,000 per year, and 20 per cent. on this figure would yield £130,000,000 available for the indemnity.

A summary of the amounts so far discussed reveals the under-mentioned:—

	£ per year.
Saving on Expenditure for Defence	137,000,000
Saving on Expenditure for Debt	81,000,000
25 per cent. Saving on Miscellaneous Expenditure	130,000,000
Export Tax	130,000,000
	<u>£478,000,000</u>

Thus, approximately £500,000,000 per annum out of the £800,000,000 required is already accounted for, without any particular damage to anyone. It is true that the Enemy holders of the Imperial and State Debt securities may be rendered uneasy at the prospect of having their interest payments deferred; but the class affected will be the one which has been primarily responsible for the war. Some neutrals, too, may be inconvenienced; but, as already noted, they are not entitled to much sympathy from us. And, moreover, when the different States affected have completed the schemes for additional taxation which they must attend to, it is likely that there will be a surplus available for the holders of the older securities.

On the other hand, the 1,500,000 men who constituted the regular armies of the Central Allies in the pre-war days, and the several millions of others who were engaged in manufacturing munitions, will be available for disbandment, and can be occupied in a useful and wealth-producing manner.

The problem for the enemy will then be, to raise at least £322,000,000 per year by means of additional taxation. It is nowhere doubted that this feat will be easy of accomplishment, in view of the lightness of many of the imposts before the war;

and in view of the huge sums which have, without great trouble, been raised in the past to meet certain extraordinary expenditures on the Army, Navy, etc.

For ourselves, we could afford to leave the problem to the acknowledged ingenuity of the Germanic Financiers concerned. Meanwhile, we could facilitate our own affairs by seizing a sufficient proportion of the £867,000,000 which represents the gross earning capacity of the German State Railways, leaving the owners thereof to supply the deficiency by taxation.

* * * * *

On a basis of the foregoing it would seem that no difficulty will be experienced in "making the enemy pay," but, unfortunately, the crowning difficulty yet remains.

On the supposition that the pre-war rates of exchange will prevail, it has been reasonably well demonstrated that the equivalent, in local currencies, of £800,000,000 per year can be assembled by the Central Allies. The difficulty lies in discovering a medium whereby this huge sum may be annually transmitted out of the enemy territories.

It cannot be fully handled in the form of coin or of bullion, because there will not be enough available. Neither can it be handled, except to a limited degree, in the form of manufactured goods, or as raw materials, without damaging the interests of the Entente Allies themselves.

The only alternative that occurs to the writer, would be to transmit as much of the £800,000,000 per year as could be forwarded without deranging the exchanges of the world, and to invest the remainder in Enemy securities and properties of various kinds; such properties to be held in trust, and subject to redemption during the lives of future generations, by the gradual exportation of such fundamentally useful materials as potash, coal, timber, etc., as could be conveniently absorbed from time to time.

NORMAL ORDINARY EXPENDITURE OF CENTRAL ALLIES.

	Expenditure for—			Total.
	Defence.	Debt.	Miscellaneous.	
German Empire	£ 97,845,960	£ 12,177,865	£ 68,846,110	£ 178,869,935
German States	—	£ 32,137,335	£ 275,709,369	* 307,846,704
Austro-Hungarian Empire	19,349,976	—	957,370	20,307,346
Austria	—	£ 20,825,815	£ 102,054,955	£ 122,880,770
Hungary	—	£ 8,882,433	£ 58,373,752	£ 67,256,183
Bulgaria	£ 1,620,000	£ 1,605,880	£ 1,506,952	£ 4,732,832
Turkey	£ 18,491,730	£ 5,460,637	£ 10,611,157	£ 34,563,524
	<u>£ 137,307,666</u>	<u>£ 81,089,965</u>	<u>£ 518,059,665</u>	<u>£ 736,457,296</u>

* Excluding contributions to Imperial Exchequer.

NORMAL ORDINARY EXPENDITURES OF GERMAN FEDERAL STATES.

(Including Contributions to Imperial Exchequer).

	£
Alsace-Lorraine	3,668,046
Anhalt	1,168,399
Baden	9,664,931
Bavaria	33,810,706
Bremen	3,457,541
Brunswick	1,026,436
Hamburg	10,938,062
Hesse	4,303,376
Lippe	130,814
Lubeck	923,907
Mecklenburg-Schwerin	1,627,400
Mecklenburg-Strelitz	251,259
Oldenburg	807,726
Prussia	217,537,463
Reuss (Elder Branch)	89,801
Reuss (Younger Branch)	138,965
Saxe-Altenburg	86,650
Saxe-Coburg and Gotha	135,612
Saxe-Meiningen	148,513
Duchy of Saxony	613,152
Kingdom of Saxony	22,661,133
Schaumburg-Lippe	46,176
Schwarzburg-Rudoldstadt	168,885
Schwarzburg-Sonderhausen	170,887
Waldeck	75,300
Wurtemberg	5,933,459
	<u>£319,584,599</u>

NORMAL ANNUAL EXPORTS OF THE CENTRAL ALLIES.

	£
German Empire	509,900,000
Austria-Hungary	115,130,000
Bulgaria	3,728,000
Turkey	21,746,000
	<u>£650,504,000</u>

MSA # 24208

**END OF
TITLE**